

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350

My dear Mr. Speaker:

There is enclosed a draft of proposed legislation to amend chapter 73 of title 10, United States Code, (relating to the Retired Serviceman's Family Protection Plan) to equate the tax treatment of servicemen and their beneficiaries resulting from an election thereunder to the tax treatment applicable to Federal Employees covered under Civil Service Retirement System.

This proposal is a part of the Department of Defense Legislative Program for 1965. The Bureau of the Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this proposal for the consideration of the Congress. The Department of the Navy has been designated as the representative of the Department of Defense for this legislation. It is recommended that this proposal be enacted by the Congress.

Purpose of the Legislation

In general, the Retired Serviceman's Family Protection Plan provides that, as the result of an election made prior to retirement, a retired member receives a reduced amount of retired pay during his lifetime. By so doing, he is able to select an annuity for his survivors. Upon his death, the survivors receive the annuity so provided. The purpose of the proposed legislation is to amend chapter 73 of title 10, United States Code, to provide rules relating to the tax treatment of reduced retired pay and survivor annuities under the Retired Serviceman's Family Protection Plan (codified in chapter 73 of title 10, United States Code).

Under present rules, the retired serviceman who has elected to provide his survivor an annuity under the Retired Serviceman's Family Protection Plan is subject to tax on the full amount of retired or retainer pay which he is entitled to receive rather than the reduced amount he actually receives. In addition, the value of the survivor's annuity is included in his gross estate for estate tax purposes. The present tax treatment accorded members of the uniformed services has greatly restricted participation in the Plan.

The proposed legislation, which was prepared with the assistance and concurrence of the Treasury Department, would extend to members of uniformed services similar tax treatment to that now accorded Federal employees covered under the Civil Service Retirement System. Thus, in general, members of the uniformed services who have elected coverage

AN IDENTICAL LETTER HAS BEEN FORWARDED THIS DATE TO THE PRESIDENT OF THE SENATE

under the Retired Serviceman's Family Protection Plan would be subject to income tax on the reduced amount of retired or retainer pay the serviceman receives, and their survivors would be subject to tax on the amount of annuity they actually receive. In addition, the value of the survivor's annuity would not be included in the gross estate of the deceased serviceman for estate tax purposes.

Cost and Budget Data

Enactment of this proposed legislation will not create any additional cost to the Department of Defense, and the effect in the change in tax treatment will have no substantial effect on tax revenue.

Sincerely yours,

Honorable John W. McCormack
Speaker of the House of Representatives
Washington, D. C. 20515

1 Enclosure
Draft bill